

UNDERSTANDING PROPERTY TAXES

We designed this information sheet to provide you with the basic knowledge about how the Montana property tax system works. We encourage you to contact your local Department of Revenue office if you need additional information or have questions.

Property Taxes in Montana

Why do we have property taxes?

In Montana, property taxes help pay for local government services such as schools, roads and bridges, as well as fire and police protection. You and other property owners support these services by paying property taxes as required by state law.

Under Montana's system of property taxation, the property taxes you pay are in proportion to the value of your property. Higher taxes are paid on more expensive properties; lower taxes are paid on less expensive properties.

What role does the State of Montana, state legislature, and county governments play in property valuation and property taxes?

The 1972 constitution authorized the state to appraise, assess, and equalize the valuation of all property, which is to be taxed, in the manner provided by law. The Department of Revenue's property assessment division is charged with the administration of property taxes on behalf of the state.

The legislature has identified fourteen different classes of property. Property within a class is valued in the same manner, but not all classes of property are valued the same. The legislature determines separate tax rates, exemptions, and valuation standards as a matter of policy. The department applies these policies to the valuation of property to calculate taxable values.

The treasurer's office in each county is responsible for generating tax bills and collecting taxes for services received by property owners in their counties. The local governments are authorized to set the mill levies based upon their operating budgets. The legislature has placed limitations on how many mills the local governments can set.

Is the state's portion of property taxes fixed by statute?

Yes. The state can only collect 95 mills for school equalization and 6 mills for the university system. In Butte/Silver Bow, Cascade, Yellowstone, Missoula, and Lewis & Clark counties, 1.5 mills are collected for vocational and technical schools. The mills generate revenue to help fund a portion of the state's obligation to support local schools, universities, and vocational and technical colleges.

How is the value of my property determined?

In the appraisal process, we analyze and assign a value to all taxable property in the state. We follow state guidelines to do our appraisals ensuring all properties are treated in a fair and equitable manner. Residential, commercial, industrial, agricultural and forest land property is appraised once every six years.

Property value (market or productivity)

Property taxes are based on the value of the property. We use four basic approaches to determine property value.

Sales comparison approach compares your property to other similar properties that have recently sold in your area, taking into account any differences between those properties and yours.

Cost approach is based on using the current replacement cost of improvements, less depreciation, plus land value.

Income approach is used to value commercial properties when income (rents) and expenses can be compared.

Productivity approach values agricultural and forest land based on the amount of crops or timber that can be grown on the land under normal management.

How is property taxed?

Montana property taxes are an ad valorem tax, meaning the tax is levied in proportion to the value of each property relative to the total value within each taxing jurisdiction.

Below is an example of how the 2013 taxable value of a residential property located in levy district 0118 in Lewis and Clark County is calculated is shown below.

Facts for this example:

2002 Market Value (also known as value before reappraisal (VBR)) - \$150,000

2008 Market Value - \$180,000

2013 Homestead Exemption Percentage – 45.5%

2013 Tax Rate – 2.54%

6 Year Appraisal Cycle

- Calculate 2013 phase-in value.

Phase-in Value per year - \$5,000 (Phase-in value is the difference between the reappraisal value and the value before reappraisal phased in at 1/6th per year.)

$\$180,000 - \$150,000 = \$30,000 \div 6(\text{\# of years in appraisal cycle}) = \$5,000 = \text{phase-in/year}$

For 2013, we are in the fifth year of the appraisal cycle

$\$5,000 \times 5 = \$25,000 = \text{value to phase-in for 2013}$

$\$150,000(\text{VBR}) + \$25,000 = \$175,000 = \text{phase-in market value for 2013}$

- Calculate 2013 Homestead Exemption Value

Pursuant to MCA 15-6-222(v), a certain percentage of value is exempt and is subtracted off the phase-in value for each year of the appraisal cycle. This percentage changes each year. For 2013, the percentage is 45.5% or .455.

$$\$175,000 \times .455 = \$79,625 = \text{homestead exemption value}$$

- Calculate 2013 taxable market value

The phase-in value minus the exempt value is the taxable market value.

$$\$175,000 - \$79,625 = \$95,375 = \text{taxable market value}$$

- 2013 tax rate – 2.54%

Pursuant to MCA 15-6-134(2)(a)(v), the taxable percentage for 2013 is 2.54% or .0254.

- Calculate 2013 taxable value

The taxable market value is multiplied by the tax rate.

$$\$95,375 \times .0254 = \$2,423 = \text{taxable value}$$

- Calculate property taxes (ad valorem tax)

Taxable value is multiplied by the 2013 mill levy for levy district 0118 set by the local government in Lewis in Clark County)

$$\$2,423 \times .73092 = \$1,771.02 = \text{Property tax amount (this figure does not include any special assessments added by the local government in Lewis and Clark County.)}$$